

BEFORE THE POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

**Periodic Reporting
(Proposal Seven)**

Docket No. RM2015-16

COMMENTS OF PITNEY BOWES INC.

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I. INTRODUCTION

Pursuant to Order 2654, Pitney Bowes Inc. (Pitney Bowes) respectfully submits these comments on the Postal Service's request to change the analytical method relating to the avoided costs for Flats Sequencing System (FSS) workshare discounts.¹ Among other changes, the Postal Service proposes that allied and platform costs for FSS Standard Mail Flats be set equal to the allied and platform costs for 5-Digit Standard Mail Flats.

Pitney Bowes takes no position as to whether this change is appropriate in the FSS environment; however, because the proposal is inconsistent with the Commission's established methodology and because the Postal Service has not provided sufficient evidence or analysis in support of its approach, the Commission should only adopt the change requested by the Postal Service if it makes clear that its approval is limited to the FSS environment, and that it will adhere to the established methodology for all other workshare modeled costs.

II. DISCUSSION

The Postal Service seeks to modify the methodology used in the Standard Mail Flats mail processing cost model to estimate the mail processing cost avoidances of FSS presorted Standard Flats. *See* Petition, Proposal Seven, Section One at 1. Among other changes, the Postal Service is seeking to modify the CRA adjustment factor to "insure the non-modeled costs distributed to FSS pieces are equal to those distributed to 5-Digit pieces." *Id.* at 12. This proposed change is inconsistent with the current Commission-approved methodology for adjusting modeled costs for

¹ *See* Docket No. RM2015-16, Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Seven)(Aug. 11, 2015); Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Seven)(Aug. 5, 2015)(Petition).

consistency with the CRA, which assumes that non-modeled costs (e.g., allied, platform, interoperational transit) are incurred in proportion to direct modeled costs (e.g., piece handling).

The Postal Service concedes that the Standard Mail Flats mail processing cost model does not explicitly model the costs of allied and platform operations, that the established methodology assumes allied and platform costs are incurred in proportion to the direct piece and bundle handling costs, and that the imputation of allied and platform costs is conducted through the application of the CRA adjustment factor. *See* USPS Response to CHIR No. 1, Question 4 (Aug. 27, 2015). The Postal Service asserts, however, that “[i]n a FSS environment this assumption fails” because the allied and platform costs incurred by FSS pieces are “likely similar” to those incurred by 5-Digit pieces. Petition, Proposal Seven, Section One at 11-12. The Postal Service’s assumption that the FSS environment is different may or may not be correct. Because the Postal Service has not explicitly modeled allied and platform costs in the FSS environment there is no basis on the record to support that conclusion.

The treatment of non-modeled costs is not a new issue. The Commission-approved methodology was first adopted in Docket No. R2006-1.² The Commission has consistently upheld the established methodology, holding that:

The Commission concludes that the established method of allocating allied/support costs to presort categories in the letter cost model is a better approximation of how those costs vary with presort level than the Postal Service’s assumption that they are entirely fixed. The Commission finds that the Postal Service’s descriptions of allied/support operations are incomplete and inaccurate, and that the more thorough analysis of those operations by Pitney Bowes confirms that they vary substantially with presort level. Until the Postal Service explicitly

² Docket No. R2006-1, Order No. Opinion and Recommended Decision (Feb. 26, 2007), ¶¶ 5160-61 (“The remaining costs, which are largely allied and support costs, are distributed to the three groups in the same proportions as the directly assigned pools. The allied and support pools support all mail processing operations, and so it is reasonable to assume that they are affected by worksharing to the same extent as the proportional and fixed operations they support.”)(citing Testimony of Lawrence G. Buc on Behalf of Pitney Bowes Inc. (PB-T-2)(Oct. 26, 2006), at 13-31).

models allied/support costs, the Commission will adhere to the established piggyback method of distributing those costs.

The Commission remains convinced that distributing allied/support and unexpected costs in the same proportions as all other costs is the best approximation of the effect that presort level has on those costs. *See* PRC Op. R2006-1, ¶ 5160. In addition, the Commission notes that a similar mail processing cost pool allocation methodology that piggybacks nonmodeled costs on all other costs is used in the parcel cost models for Standard Mail, Parcel Select, and Parcel Return Service.³

Because the proposal is inconsistent with the Commission's established methodology and because the Postal Service has not explicitly modeled the allied and platform costs for FSS or any other product, the Commission should only approve the change in the FSS environment if it expressly limits the change to the FSS environment and reaffirms that unless and until the Postal Service explicitly models allied and platform costs in all other cost models, including the letter cost models, the Commission will adhere to the established piggyback method of distributing those costs.

³ Docket No. RM2010-13, Order No. 1320 (Apr. 20, 2012) at 40-1, n.48 (citing Order No. 658, Docket No. RM2010-12, Order On Analytical Principles Used In Periodic Reporting (Proposals Three Through Eight), January 28, 2011, Proposal Seven at 13-14; *see also* Order No. 719, Docket No. RM2011-6, Order on Analytical Principles Used In Periodic Reporting (Proposals Thirteen and Fourteen), April 28, 2011, Proposal Thirteen at 7).

III. CONCLUSION

Pitney Bowes appreciates the Commission's consideration of these comments.

Respectfully submitted:

/s/

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